

# **Schedule of Audit Findings and Responses**

## **Orcas Island School District No. 137 San Juan County April 21, 2010**

### **1. Orcas Island School District No. 137's internal controls over cash receipting and Associated Student Body funds are inadequate.**

#### **Description of Condition**

During fiscal years 2008 and 2009, the District directly receipted \$407,391 and \$384,576, respectively, from general fund activities and \$101,842 and \$110,083, respectively, from Associated Student Body (ASB) activities. We reported a finding in this area in fiscal year 2000 and noted continuing weaknesses in internal controls over ASB revenue, including cash receipting in 2003. We were previously unable to follow up on these issues.

The District receipts money for non-ASB activities, such as food service, gifts and donations, and fines and fees. The District also receipts money for ASB activities such as fundraisers, ticket sales, sports and club participation fees and yearbook sales.

During the current audit, we followed up in this area and found several internal control weaknesses and limited accountability over fundraisers and cash receipting, specifically:

- In October 2008 the District reported a potential loss of \$515 in ASB funds noted as missing from a bank deposit. We found the receipt records and deposit slip showed different amounts than the bank's verification of the deposit. The receipt records totaled \$4,040, the deposit slip totaled \$3,490 and the bank verified \$3,525. Additionally, three months elapsed between the revenue collection and deposit. During this time the District did not secure this money. We could not determine if the \$515 is a record-keeping error, a loss or a misappropriation.
- The District did not independently review activities by the former Accounts Receivable/Accounts Payable employee. This individual had access to unsecured cash and checks, prepared deposits, was a signor on District bank accounts, had the system access needed to create and maintain vendor files and was responsible for processing accounts payable and receivables.
- The District does not have detailed policies outlining cash-handling and receipting procedures. We also noted the District does not have formal ethics policies to ensure employees understand the proper use of District resources.

We reviewed support for four reimbursements to the imprest fund and to employees, totaling \$6,782 that the former employee processed. We noted:

- No documentation to support two imprest fund reimbursements totaling \$5,781. We were unable to determine whether the original expenditures were approved or for an allowable purpose.
- An \$800 reimbursement to an employee who paid a vendor to paint District lockers. We found the documentation for this transaction was a piece of scratch paper showing the amount to be paid and a copy of the check the employee wrote to pay for the service. We found no formal authorization for the payment.
- The former employee processed a reimbursement of \$201 for food at School Board meetings to herself that was adequately supported as one receipt was missing.

We judgmentally selected 93 transactions totaling \$81,430, over two months for audit and noted:

- Deposit slips were not consistently supported by independent cash reconciliations or copies of receipted checks to ensure that deposits were made intact and all funds were accounted for.
- The District did not deposit any of the money collected for the 93 transactions within 24 hours as required by its own policy and state law. One transaction for \$1,240 was not deposited for 60 days.

We also reviewed receipt books used at the District office. Our review covered approximately 340 receipts and found:

- The District was unable to find receipts for transactions for most of the period under audit.
- Eighty-seven receipts had been removed from the middle of one book.
- Original copies of 13 voided receipts were not kept in the receipt book.
- Documentation was inconsistent for receipts written during fiscal year 2008. Receipts were not recorded sequentially by date, and the check/cash composition was not consistently documented.

Additionally, we reviewed internal controls over the fiscal year 2009 high school yearbook sale and the middle school spaghetti dinner. The District reported revenue for these fundraisers of \$8,403 and \$3,512, respectively. We noted the District:

- Was able to provide an ending inventory of yearbooks, but it did not reconcile with to the number of or location of books on hand.
- Did not maintain documentation on ticket sales and expected revenue for the spaghetti dinner.

- Did not perform reconciliations after the fundraisers to ensure it collected and deposited all expected revenue intact and accounted for any unsold inventory.
- Did not adequately secure funds from the spaghetti dinner. They remained in classrooms for multiple days.

### **Cause of Condition**

The District has experienced significant management turnover during the past five years. It has not developed adequate internal controls and policies and procedures to be used by employees responsible for cash-receipting and ASB activities. Additionally, due to limited staffing and other District priorities, effective oversight and adequate training has not occurred.

### **Effect of Condition**

Lack of adequate internal controls over ASB revenue and cash receipting results in decreased accountability and an increased risk that misappropriation, loss or misuse may occur and not be detected in a timely manner, if at all.

### **Recommendation**

We recommend the District establish and maintain internal controls and monitoring over cash-receipting and ASB activities to ensure compliance with state laws and regulations. Specifically, we recommend the District:

- Develop and adequately communicate policies and procedures for cash receipting to ensure all funds are accounted for and adequately secured, and the District is receiving all money due to it.
- Develop and follow formal ethics policies to ensure employees understand the proper use of District resources.
- Adequately segregate duties to ensure employee access is limited to functions necessary to perform assigned job functions.
- Adequately and regularly review cash-receipting transactions.
- Maintain adequate documentation that will allow it to reconcile expected revenue to actual revenue for all ASB fundraisers. The District should maintain inventory and other records used to track and monitor revenue.
- Ensure employees responsible for cash-receipting and ASB fundraisers are adequately trained to perform these functions.

### **District's Response**

*The District concurs with the review put forth by the State Auditor's Office and was aware of the issues noted prior to the Audit Review and self-reported regarding some of the instances noted. The District revised some of its processes prior to the State Audit and in the other instances is establishing procedures to address the issues expressed.*

*The actions taken or under consideration are as follows:*

- *Cash handling is now a segregated activity dually counted by site personnel and directly deposited by those personnel. In addition, deposits by procedure have been required to be timely; however, monitoring at the District Level has been adjusted to ensure timely deposits are occurring.*
- *Staff members who are handlers of cash activity are no longer signatories on bank accounts and verification of data entry by staff members is reviewed by the Business Manager.*
- *The District has successfully addressed its fund balance challenges over the last three years and has addressed internal controls as well; however, revision and implementation of additional policies will now have the opportunity for greater attention by District Financial Personnel.*
- *The District has materially and successfully revised its structure for use, accounting, replenishment, and reconciliation of activity in its Imprest Accounts. This includes review and reconciliation of the account by three separate personnel in the District Business Office.*
- *The receipt and ASB process will be part of the encompassing review noted above regarding policies. This review is designed to address concerns expressed in the areas of cash handling, ASB fund-raiser tracking, and other financial areas.*

### **Auditor's Remarks**

We thank the District for its commitment to resolving the condition noted above. We will review the status of the finding during our next audit.

### **Applicable Laws and Regulations**

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from every source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be

published , for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four hours.

Washington Administrative Code (WAC) 392-138-014 states in part:

Associated student body moneys shall be accounted for as follows:

(1) Accounting methods and procedures shall comply with such rules and regulations and/or guidelines as are developed by the state auditor and the superintendent of public instruction and published in the Accounting Manual for Schools . . . .

*Accounting Manual for School Districts in the State of Washington*, Chapter III, states in part:

Each school board is responsible for establishing and maintaining an effective system of internal controls throughout the district.

Further, an internal control system . . . (should) ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.